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Foreign Economic Trends and Their Implications for the United States

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CAPE VERDE

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KEY ECONOMIC INDICATORS
(in millions of U.S. dollars)

Rates of Exchange:

1986: $1=79 escudos
1987: $1=72 escudos
1988: $1=72 escudos

Income:	1986	1987	1988
GDP	190.7	236.2	262.2
Investment Income	-7.9	-4.5	-0.9
Remittances	22.8	24.5	26.5
GNP	205.6	256.2	287.8
Real GDP Growth (%)	2.9	7.0	3.2 (prel.)
(real growth for the 1980s 5% per annum)			
Balance of Payments			
Imports C.I.F.	77.9	77.7	77.9
Exports F.O.B.	4.3	9.3	3.2
Trade Balance	-73.6	-68.4	74.7
Major Trading Partners (Percentage of Exports)			
Portugal	28.2	13.7	17.4
Netherlands	1.2	0.8	2.47
Algeria	19.4	47.3	61.4
Angola	4.3	0.0	0.0
Italy	11.0	2.1	4.39
France	5.5	3.8	4.31
West Germany	0.0	0.8	2.36
Major Trading Partners (Percentage of Imports)			
Portugal	34.4	33.7	32.1
Brazil	2.4	5.0	4.8
West Germany	5.3	5.2	4.4
Netherlands	15.7	10.8	6.3
Spain	1.9	2.5	1.0
France	5.9	2.9	3.3
Japan	0.0	5.8	10.2
Switzerland	0.6	7.3	0.0
Domestic Economy			
Population	338,556	344,049	346,800
Real GDP Per Capita	$568	$692	$758

Sources:
General Directory of Statistics, Government of Cape Verde
1989 International Monetary Fund Report - Cape Verde
Bank of Cape Verde

SUMMARY

Fundamental changes in the structure of Cape Verde's economy are anticipated in the coming years. The Cape Verdean Government has embarked upon a new economic course, assisted by several members of the international donor community. The development of export-related activities coupled with a liberalization of the economy are announced goals.

CURRENT ECONOMIC SITUATION AND OUTLOOK

Background

Relative to the stagnating economies that increasingly characterize many African nations, Cape Verde's consistently strong economic growth is impressive. Real gross domestic product (GDP) increased at an average rate of 5 percent for the 1980s, with statistics from individual years ranging from a low rate of 2.9 percent in 1986 to a high rate of 9.5 percent in 1983. Nominal per capita income by 1986 had doubled since independence in 1975.

Cape Verde's strong economic performance results in large measure from the government's pragmatic and sound economic policies. Inflation has been less than 10 percent for most of the 1980s and was less than 5 percent for 1987 due to restrained monetary and credit management. Fiscal policies are equally prudent. The government uses fiscal revenues to cover expenditures and foreign aid to finance investment. Domestic fiscal deficits have never exceeded 1 percent of the GDP. The Cape Verdean escudo is pegged to a basket of nine major Western currencies. The openly traded escudo is stable.

Large inflows of foreign aid and emigrant remittances stimulate Cape Verde's economic growth. Remittances from Cape Verde's large emigrant communities (mainly in the United States and Europe) totalled 10 to 20 percent of the GNP. The inflows have brought positive changes to Cape Verde, yet dependency on external sources leaves the country particularly vulnerable to changes in the world economy and to decisions over which the Cape Verdeans have no control.

Government Policies

Cape Verde's Second National Development Plan (1986-1990) targets improvement in national infrastructure, employment creation, and human resource development. The plan accords high priority to investment in the sectors of agriculture, fisheries and tourism, which combined are to receive 34 percent of public investments during the plan's five years. Within the industrial sector, new initiatives emphasize agriculture and food processing industries, industries based on maritime resources, and construction and light industries geared toward export markets.

This year the Cape Verdean Government began implementing new legislation as well as formulating policies for the next National Plan. In 1989 the National Assembly passed basic legislation to implement a liberal economic policy. The initiatives concern private sector development, including private and offshore banking, foreign investment and industrial development. A government decree, in May, created the legal basis for a free trade zone. Entrepot activities can be undertaken, such as the storage of goods without payment of duties, with storage periods ranging up to four years, depending on the type of goods. The decree also authorizes the establishment of bonded and warranted private warehouses. Export industries will be able to import raw, semi-finished, or finished materials without payment of customs duty. In addition, Cape Verde recently adopted a formal investment code.

Donor Commitments

In 1987, the Government of Cape Verde informed the international donor community that it had asked the U.S. Agency for International Development (USAID) and the World Bank to play leading roles in the development of the country's private sector. Subsequently, the United Nations Development Program (UNDP) has also sponsored a private sector and export support program.

USAID and Cape Verde began implementing an Export Development Services Project this year. This project, with target disbursements of $4 million over four years, is designed to provide support to Cape Verde's private sector by reducing constraints to expanding export-oriented production, trade and private sector participation, and by establishing a foreign investment center. The center is intended to serve as a one-stop shop for marketing promotion, research and policy analysis, investor advisory services and training.

Other donor commitments include: a 1985 World Bank and UNDP $5 million credit to strengthen Cape Verde's capacity to identify, prepare and promote industrial projects; another World Bank $3.9 million line of credit to assist small-scale industrial projects (such as a gas-bottling plant, bakeries and fish processing) has been advanced; and more recently, an innovative UNDP and United Nations Committee on Trade and Development (UNCTAD) two-year project with the Ministry of Transportation, Commerce and Tourism has been concluded to encourage exports by training national officials in nontraditional export activities such as export processing zones, teleport/information services, tourism, and transshipment services. In early 1989 Cape Verde became a member of (Multilateral Investment Guarantee Fund) MIGA under the auspices of the World Bank. MIGA will provide insurance protecting foreign investors against noncommercial risks and volatile economic conditions that might affect investments in Cape Verde.

Several donor countries have made strong bilateral commitments to Cape Verde. The Dutch Government, in particular, has been generous in supporting infrastructure development, including the expansion of the port of Mindelo, Sao Vicente (along with the World Bank), the shipyard of Mindelo, small industries development, and water desalinization.

Trading Partners

Portugal continues to be Cape Verde's primary trading partner, followed (in terms of exports) by Algeria. Italy has also emerged as a significant trading partner, absorbing over one-tenth of the country's exports. Cape Verde's exports consist almost entirely of fish (especially tuna), lobster and bananas, with some exports of leather, building stone, pharmaceuticals and textiles. Despite improved agricultural yields, the country continues to suffer from chronic droughts and infertile soil. Thus, it is likely to remain a net importer of foodstuffs.

Domestic Economic Sectors

Cape Verde's cash economy is overwhelmingly concentrated in services (commerce, transport and public services), which account for 60 percent of GDP. The long drought has caused a decline in the importance of agriculture, which still employs half of the country's labor force. Agriculture, as a percentage of GDP, declined from 33 percent in 1980 to 20 percent in 1988. Fish production is far below optimum sustainable catch levels. The catches of some species could be increased by 80 percent. Neither Pescave (the state fishing operation), nor INTERBASE (the state storage and commercialization facilities) utilize their full capacity.

Cape Verde has few known exploitable attributes, aside from an attractive climate, a hardworking population and a strategically placed geographic position. Tourism and the free trade zone activities seem to hold the greatest potential for economic development.

Labor Market

Recent estimates place combined unemployment and underemployment at 70 percent of the labor force. Wages for unskilled labor are low at about $0.50 per hour. Fringe benefits are limited to 25 percent of base salary. Industry is allowed to pay piecework wages. Absenteeism, resignations and discipline are rare problems.

IMPLICATIONS FOR THE UNITED STATES

Due to a geographic location 400 miles off the coast of West Africa, at the crossroads of Mid-Atlantic air and sea lanes, Cape

Verde is favored as an international transit point. The modern, well-equipped international airport at Sal Island can handle increased air traffic. A ship repair yard and a good harbor in Mindelo, Sao Vicente, offer possibilities for greater maritime activity and for freight transshipment operations.

The best prospects for American investors are those to be identified by the USAID Export Development Services Project. These include information services/teleport development, fishing, transshipment and tourism. Although the existing infrastructure for tourism is modest, Sal and Boa Vista have attractive beaches with great conditions for water sports. The two islands have developed facilities for diving, wind surfing and sport fishing; they are slowly becoming successful beach resorts.

Prospective investors should address inquiries to:

The Ministry of Energy and Industry
Rua Bossa Nova
Praia, Republic of Cape Verde

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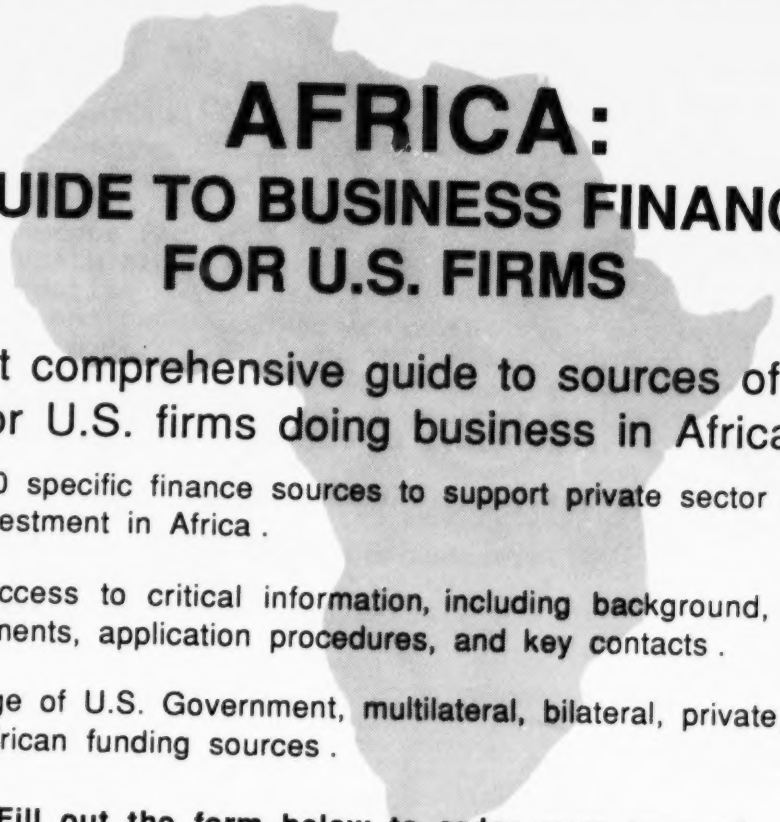

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